



**Enhancing banks’  
and insurers’  
approaches to  
managing climate-  
related risks –  
Update to SS3/19  
(CP10/25)**

UK Finance response

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## Introduction

UK Finance is the collective voice for the financial services industry, representing 300 firms. We welcome the opportunity to provide feedback on the proposals set out in the Prudential Regulation Authority's (PRA) consultation on 'Enhancing banks' and insurers' approaches to managing climate-related risks – Update to SS3/19' (CP10/25). We support the PRA's collaboration with industry to inform its update and would be happy to participate in further discussions, including to clarify any of the points outlined in this response.

### 1. Overarching comments on CP10/25

- ▶ **A welcome recognition of progress:** Overall, we welcome the clarifications offered in CP10/25 and the recognition of progress across the banking sector. We support the use of CP10/25 to extend the guidance within Supervisory Statement 3/19 (SS3/19) and consolidate expectations around managing climate-related risks, reflecting firms' evolving maturity across strategy, risk appetite practices, analysis, data, and Board oversight.
- ▶ **Clarifying expectations for first six months:** To give firms time to transition from SS3/19, CP10/25 states that supervisors will not ask for gap analyses, action plans or steps to meet expectations until six months after the updated supervisory statement (SS) takes effect. We would appreciate clarity in the final SS on what the PRA expects firms to achieve during this six-month transition period. We strongly recommend that within the six-month period firms are expected only to undertake a gap analysis against the expectations in the new SS and to develop a plan to address any gaps identified.
- ▶ **Supervision of remediation plan implementation:** Given the complexity and evolving nature of this topic, we would welcome guidance on how the PRA will supervise the execution of remediation plans and completion of actions following the implementation of the new SS. We propose that the PRA take a principles-based and proportionate approach to assessing firms' implementation of remediation plans, recognising that many firms are early in the process of building capability so the time required to implement remediation plans may vary between firms due to size, complexity and business model. We also propose that the PRA consider adopting a phased approach that builds towards meeting expectations. This would better enable firms to prepare and plan appropriately, particularly within the context of adjacent

regulatory change including introduction of the UK Sustainability Reporting Standards (UK SRS). It would also mirror the multi-year timeline that firms had to meet the expectations set in SS3/19.

- ▶ **Clarification between expectations versus guidance:** We welcome the inclusion of illustrative examples and guidance to contextualise and substantiate the expectations set out in CP10/25. We would encourage consistency in the use of language throughout the new SS, in particular terms such as “should”, “could” and “consider”. It would be helpful if it was made explicit in the SS where the PRA’s intention is to outline supervisory expectations (using terms like “should”), versus providing illustrative examples or guidance (using terms like “could” or “consider”). With regard to guidance, it would also be helpful for the new SS to cross-reference expectations to specific guidance or resources such as those published by the Climate Financial Risk Forum (CFRF), or other industry bodies, as relevant.
- ▶ **Proportionality:** We propose that throughout the new SS, the PRA makes clearer how proportionality would be applied, including with regard to both a firm’s size and complexity, and the materiality of the climate-related risks identified. In particular, it would be useful if the PRA provided guidance on three aspects of the application of proportionality to: (a) the materiality assessment, (b) risk management, and (c) financial reporting.

**(a) Materiality assessment:** We propose that the SS mirror the proportionate application of the materiality assessment referenced in SS28/15, which considers firm size, and the nature, scope and complexity of activities and outsourced functions. This would enable firms to fulfil supervisors’ expectations by facilitating and evidencing a pre-assessment (see figure below) to demonstrate whether climate-related risk is material to their organisation. The pre-assessment would principally be narrative-based and qualitative, and consider climate-related risks in a proportionate manner, with reference to a firm’s size, and climate risk as a part of its specific context and business model. The firm would then only continue to quantitative climate scenario analysis (CSA) if climate-related risks were deemed material in the pre-assessment. Similarly, a principles-based and proportionate approach could be applied to reverse stress testing (RST) so that the RST undertaken is commensurate to the initial risk identification and assessment.

Through introducing the first pre-assessment stage, firms with immaterial climate risks may take a proportionate approach (only deploying quantitative approaches to obviously, or potentially material climate risks) avoiding performing quantitative assessments where immaterial. The approach, scope, assumptions and outputs would be documented at both stages.

**Figure 1. Materiality assessment**

A staged materiality process to enable firms to take a proportionate approach through the inclusion of a “qualitative pre-assessment” of climate risk:

**Stage 1 – Qualitative pre-assessment:** Qualitative approach to assessing whether climate risks are material – using expert judgement, applied to narrative scenarios, to identify where further focused quantitative approaches such as CSA are required.

**Stage 2 – Quantitative assessment** (only where identified in Stage 1 as obviously, or potentially, material): Quantitative approaches including CSA to assess the materiality of non-immaterial climate risks.

*Further detail in Sections 3 and 7.*

**(b) Risk management:** Following the materiality assessment, we propose that firms have the flexibility to approach all aspects of their risk management in a manner proportionate to the materiality of the climate-related risks identified. For example, the requirement for the Board to set the risk appetite and risk tolerance levels for third-party arrangements and outsourcing (paragraph 4.2.25) should be linked to the materiality of the risk identified.

**(c) Financial reporting:** Paragraph 4.6.11, stating that banks must regularly identify and rigorously quantify climate-related risks impacting balance sheet valuations, does not consider materiality. We would suggest that the PRA incorporate the consideration of materiality into these assessments.

- ▶ **References to Basel Committee on Banking Supervision’s standard 239 (BCBS 239) (particularly relevant for firms not otherwise subject to BCBS 239):** We understand that references to BCBS 239 in CP10/25 (though not explicitly stated) are intended to signpost industry good practice. However, the SS could make clear that it is not the PRA’s intention to extend its existing requirement for compliance with BCBS 239 to firms not currently subject to those requirements.
- ▶ In the following sections, we outline our feedback more fully, in line with the structure of CP10/25.

## 2. Governance

- ▶ **The Board's role:** Some of the elements of Board expectations set out within the CP are prescriptive. To ensure that firms can take an approach that is commensurate to the materiality of their climate-related risk versus other risks (to the extent that the climate-related risk is determined to be less material), it would be useful if the new SS stated explicitly that firms have flexibility in determining the exact role of the Board in meeting the expectations. This clarification would enable firms to exercise the same level of flexibility and discretion for climate that is available with respect to other risk factors.

In addition, we would welcome confirmation in the new SS that the PRA will permit delegation of the role and responsibilities of the Board between, for example, a Board-level committee, Board sub-committee, executive committee and/or entity-level Board (versus Group-level Board), as is appropriate within a firm's specific context and governance framework, similar to existing risk management approaches.

For example, paragraph 4.2.5 sets out expectations on how firms should ensure material risks are reported to the Board and that material risks are captured in enterprise / business line risk appetite statements. Paragraph 4.1.16 outlines that the Board should set the appetite and tolerance levels for outsourcing and third-party arrangements that may be exposed to, or introduce, climate-related risks. However, outsourcing and third-party arrangements relating to climate versus wider risks would not typically be material enough to warrant Board engagement. We recommend that, in both cases, firms are given the flexibility to decide whether these actions are appropriate for their business types and climate risk exposures and, on this basis, whether it is appropriate to expect that these are Board responsibilities (subject to above clarifications on Board delegations).

- ▶ **Risk appetite and stress loss limits:** We note the granularity of risk appetite uplifts will vary across firms. We recommend that it is made clear in the SS how the PRA will apply the principle of proportionality in determining the appropriate balance for a firm between qualitative and quantitative aspects of risk appetite and stress loss limits (see paragraph 4.2.14-4.2.19) in meeting the PRA's expectations.
- ▶ In addition, we propose that firms are able to satisfy the expectation for the Board to set risk appetite and stress loss limits (that are informed by a range of scenarios, identifying future revenue and profit at risk and expected changes in operating costs) in a proportionate way that is commensurate to the materiality of the climate-related risk to the firm.
- ▶ **Embedding climate within existing risk appetite frameworks:** For some firms, it would be more effective to further integrate climate-related risk appetite into existing

frameworks as a risk driver, rather than to develop separate, climate-specific approaches (depending on whether climate has already been integrated into existing risk stripes, or on standalone basis). We recommend the PRA clarifies this optionality in the new SS and remove reference to “climate-specific risk appetite statements” in paragraph 4.1.8. By extension, consistent with this optionality, the PRA should clarify that examples given around “climate-specific risk appetite” statements and categorisations (e.g., accept, manage, avoid) are illustrative rather than mandatory.

- ▶ **Senior Management Function (SMF) responsibilities:** The broad set of considerations in CP10/25 has the potential to make climate part of the responsibilities of several SMFs, spanning multiple functions within a firm. For example, responsibility for the identification and management of climate-related risks, and for the development of a firm’s climate strategy, could sit across several SMFs. The SS should clarify that firms are able to allocate SMF responsibilities for climate-related risks in a way that is consistent with their existing governance model and proportionate to the risk, size, complexity and business model of the firm. Specifically, the PRA should clarify that the reference to 'individual' (SS paragraph 4.1.14) does not preclude the option for firms to include managing climate-related risks in the statements of responsibilities of more than one SMF in line with an earlier reference to allocating responsibilities to the 'management body' (SS paragraph 4.1.13).
- ▶ **Analysing revenue at risk:** We note that the expectation to analyse revenue at risk is briefly mentioned in several places throughout CP10/25, in relation to the provision of information on climate-related risk for the Board, identification of risk transmission channels and reputational risk resulting in adverse customer sentiment (paragraphs 4.1.5, 4.2.2 and 4.6.32). To ensure proportionate application, we propose that the SS makes clear that firms are permitted to analyse revenue at risk to identify potential impact on business strategy in a way that is commensurate to the materiality of climate-related risk versus other risk types faced and to the firm’s size, complexity and business model.
- ▶ **Performance against group-level climate goals (particularly relevant for regulated subsidiary entities of wider Groups):** CP10/25 sets the expectation that a firm demonstrate how its plan to meet climate targets and goals (where they have been set) is integrated into business strategy (paragraph 4.1.6). However, firms often set climate targets at a group-level, in which case the goals may not have relevance for a specific UK entity. We propose that the new SS clarify that this expectation is only relevant for UK entities where they have a material (or potentially material) contribution towards relevant group-level goals.

### 3. Risk management

- ▶ **Recognition of progress regarding industry maturity:** We welcome the evolution in expectations of risk management approaches, in line with continuing progress in industry capabilities and best practices.
- ▶ **Climate as a standalone risk type or cross-cutting driver of other risks:** Given the varied approaches that firms have adopted in identifying and managing climate-related risk – either as a distinct risk category or integrated within existing frameworks – we suggest that the new SS maintains the position in SS3/19, which allowed firms the flexibility to decide which approach to take when managing climate-related risk.
- ▶ **Adapting existing processes, frameworks and reporting infrastructure:** It would be helpful if the new SS confirmed explicitly that firms’ existing frameworks and internal reporting infrastructure can be adapted to accommodate climate-related risk, rather than firms needing to create separate, bespoke approaches for climate risk. This clarification could include that firms are permitted to consider their assessment of the materiality of climate-related risk relative to other risks, and to take an approach that is proportionate to the size of risk.
- ▶ **Materiality assessments:** A requirement to undertake extensive materiality assessments to demonstrate that initial assumed immaterial risks are indeed immaterial would not be proportionate since it would require firms to undertake the complex task of effectively “proving a negative”. As such, the PRA should clarify that the level of detail and sophistication required when identifying and assessing the materiality of climate-related risks should be proportionate to the inherent susceptibility of the firm’s business model to climate-related risks. By extension, the SS should clarify that firms are not expected to conduct climate scenario analysis to assess all climate-related risks but only for those that are reasonably determined to be potentially material in a “pre-assessment” as set out in figure 1 in Section 1 above.
- ▶ **Material relationships:** We recommend that the term ‘material relationships’ (paragraph 2.28 of CP10/25) is clarified in the context of its use in CP10/25. Given that climate-related risks are drivers of existing risk types, the proposed identification and classification of relationships as material will in effect be just one more way to cut aggregate risk type exposure (e.g. a material relationship from a climate-driven credit risk perspective, a material relationship from a climate-driven operational risk perspective, etc.). Material relationships from a risk type perspective should continue to be identified and managed within that risk type.

It is important that the new SS permits firms to leverage current processes to determine the most appropriate metrics for assessing materiality within their specific contexts, rather than requiring novel approaches to be introduced for climate-related

risk. As such, the PRA should treat the list of considerations in SS paragraph 4.2.9 (e.g. emissions targets, transition plans) as illustrative rather than mandatory. This will enable firms to apply risk-based judgment as to which considerations/metrics are relevant for them to include in their processes and provide meaningful and decision-useful information.

**Market risk management:** CP10/25 sets out the expectation that firms must assess impacts on their future revenues and profitability under relevant ‘central case’ scenarios to evaluate the build-up of risks over time and identify triggers for strategic change (paragraph 4.3.8). We recognise that the emergence of new climate-related risks can result in negative price shocks and increased volatility, but the PRA’s expectation would be challenging to implement. We propose that instead firms are expected to identify and monitor concentrations of climate-related risk in illiquid assets (as liquid assets will reflect known climate-related risks in the price already) and incorporate climate factors into existing market risk stress testing.

- ▶ **Operational resilience:** CP10/25 sets out that firms are “operationally resilient if they can prevent disruption occurring to the extent practicable”. This differs from some firms’ approaches to operational resilience which focuses on the mitigation of impacts from disruption, rather than the prevention of disruption. We propose that the PRA refers to wording in SS1/21 around defining operational resilience: “Operational resilience in this SS refers to the ability of firms, their groups, and the financial sector as a whole to prevent, adapt to, respond to, recover from, and learn from operational disruptions. The PRA’s approach to operational resilience is based on the assumption that, from time to time, disruptions will occur which will prevent firms from operating as usual and see them unable to provide their services for a period” (SS1/21 paragraph 1.5).
- ▶ **Interaction between climate and non-climate events:** CP10/25 outlines that regular management information and reporting of exposures to climate-related risks should include the analysis of climate events and the interaction of climate and non-climate events (paragraph 4.2.23). Given the highly expansive range of “non-climate events” that could be considered, we recommend that the PRA clearly defines what is expected with regards to “the interaction of climate and non-climate events”, providing an illustrative example to help firms’ understanding.

## 4. Climate scenario analysis and reverse stress testing

- ▶ **Benefits of CSA and RST for range of use cases:** We recognise the benefits of CSA for differing use cases and the central role it plays in climate-related risk management, and that integrating climate into existing RST may ensure consideration of risk factors that may not have been considered previously. However, it is important to recognise the variety of forms that CSA may take. Therefore, we seek further guidance on the types of CSA which are expected to feed into the various processes throughout the new SS to ensure consistent application (such as use-case scenarios as provided by the CFRF), as well as recognising alternative forms of CSA beyond RST to test firms' outputs, such as sensitivity analysis. This guidance could provide firms with assumptions that they should take in relation to dynamic balance sheets for International Capital Adequacy Assessment Process (ICAAP) and static balance sheets for IFRS 9. We would recommend this form the basis for a future PRA-supported workstream at the CFRF.
- ▶ **Tailoring climate scenarios:** Constructing climate scenarios is challenging, particularly for smaller firms. Some smaller firms also noted the ambiguity and difficulty they would have in translating existing scenarios into practical physical and transition events which could be assessed for their impacts on firms' portfolios and operations. Further clarity on what appropriate scenarios might look like would be welcomed. We recommend the PRA provide additional clarity on existing reference climate scenarios, and how smaller firms can translate those scenarios to their balance sheets. Alternatively, the PRA could provide a simplified set of scenarios for consideration as guidance. This would not only alleviate the burden on firms, particularly smaller firms, but also enable the PRA to identify outliers more effectively in business models, balance sheets and operations, through comparability. We note that the PRA currently publishes scenarios for banks and building societies to use to support their ICAAP stress testing (e.g. BCST); the PRA could take a similar approach for climate scenarios for firms to use as they see fit for their firms.
- ▶ **RST integration into existing frameworks:** We have concerns with the proposal that climate-specific RST should be included as part of CSA. The benefits of RST may be maximised through a range of implementation approaches, including quantitative and qualitative approaches. To ensure firms can maximise the effectiveness of such an exercise, the new SS should be explicit that firms have the autonomy to implement RST in a way which maximises business-usefulness, including through integration into existing RSTs or as a standalone RST. The inclusion of climate in RSTs should be done in a manner and with a frequency proportionate to the materiality of assessed

climate-related risks. Embedding climate into existing RST also offers a more nuanced view of how climate-related risks could contribute to business failure in combination with other existing risks.

- ▶ **Multiple scenarios:** The expectation to apply multiple climate scenarios, time-horizons, and severity levels may not be proportionate across all firms and business models. For example, for broker-dealers or firms with predominantly short-dated exposures, long-term climate scenarios are unlikely to be informative in the context of their current business environment. The PRA should provide firms the flexibility to choose between running climate-driven RSTs or integrating climate-related risks into their broader RST frameworks, as appropriate to their business model. In making this decision, firms could consider whether climate-driven scenarios leading to business model failure may yield implausible scenarios that provide limited management value, particularly when designed to take the firm to the point of failure rather than just to a point at which it experiences material losses. Furthermore, paragraph 4.3.5 sets out how banks will need to conduct multiple CSA exercises. We require confirmation regarding the applicability of multiple scenarios to different use cases, thus clarifying if banks are expected to conduct multiple balance sheet stress tests. We note the PRA's expectation that RST will address the inherent uncertainty in CSA scenario outputs. As an alternative, sensitivity analysis offers a more effective and streamlined approach to mitigating these uncertainties across multiple areas of concern.
- ▶ **CSA time horizons:** Paragraph 4.3.9 states that the time horizons for CSA should correspond to the firm's use cases, reflecting a firm's business strategy and risk appetite. However, we highlight the limitations of long-term forward-looking analysis (e.g. exceeding 10 years) in providing robust strategic guidance due to increasing uncertainty. While firms require a longer-term perspective (typically 3-5 years) for strategic planning, the practical application of extremely long-term CSAs for informing business strategy is questionable. We also note that there are no robust long-term quantitative scenarios available from academia or industry that accurately capture the risks faced across the sector (e.g. cascading or compounding physical risks or transition volatility). We suggest the PRA consider approving banks to conduct quantitative analysis on 'near term' scenarios (e.g. lower than 10 years) and use qualitative analysis and techniques to supplement quantitative near-term analysis and drive long-term strategic thinking.
- ▶ **CSA and decision making:** The PRA expects firms to document how their CSA achieves its objectives and influences decision-making. However, the dynamic nature of the business environment, often differing from the scenarios used in RST, may present challenges for some firms in fully integrating CSA/stress-testing outputs into their decision-making processes. Furthermore, there are challenges around using long-term CSA to inform business strategy, given that uncertainty over forward-

analysis increases with time. To address this firms could be expected to demonstrate where CSA has been integrated into decision making and where it has not, with clear rationale for the latter - which may include lack of certainty beyond a certain time horizon.

- ▶ **Proportionality linked to CSA:** Paragraph 4.3.12 notes that where firms are unable to conduct a comprehensive CSA, they must demonstrate an alternative approach to understanding future risks. Firms should be permitted to undertake CSA at a frequency aligned to climate risk exposure and modelling sophistication and use narrative scenarios and expert judgment in pre-assessments, reserving more sophisticated CSA for material climate-related risks. Firms that take this approach may then implement a trigger-based approach (e.g. a major change in balance sheet or a new scenario released) to determine when they require more sophisticated CSA, reassessment, or annual CSA performance.

## 5. Data

- ▶ **Data quality is a continuing challenge:** We recognise the importance of working to improve data quality, which is a continuing challenge and area of focus for all firms.
- ▶ **Data gaps are inevitable:** We acknowledge the expectation in CP10/25 that firms must proactively address data gaps (via investment or documented use of conservative proxies), maintain robust and traceable data governance, and utilise granular data (asset- or client-level). Firms are likely to face challenges in doing so due to continuing reliance on the use of third-party data, overall data availability and quality limitations, and significant modelling uncertainty.
- ▶ **Development of in-house capabilities:** CP10/25 (section 2.63) sets an expectation that firms develop in-house data and modelling capabilities, alongside SS1/23 setting expectations on data used for modelling. While firms need to develop these capabilities, the current drafting could be read as requiring firms to reduce their use of third parties. It is essential that firms are permitted to leverage third parties to support their climate-related risk management capabilities, as they are permitted to for other risk categories. Third-party providers may be able to offer data and modelling capabilities that achieve better outcomes, greater consistency and lower costs for firms.
- ▶ **Data uncertainty:** CP10/25 sets the expectation that firms quantify the extent of uncertainty due to data gaps and specify the metric(s) for quantification (section 2.59). We suggest that this is reworded to require firms to "assess data gaps and understand the potential impacts" instead. It is not always possible for firms to quantify, due to limitations related to third-party data models. Similarly, we request further clarification on the expectation to scrutinise data and projections supplied by external data

suppliers. We acknowledge the need for firms to understand the assumptions and limitations in relation to the data used, and to ensure consistency across different data sources, but there are limitations for firms linked to third-party data providers. This challenge has been recognised by the Government and work is underway to address, i.e. through the regulation of ESG ratings providers, as well as the government-endorsed ICMA voluntary code for both ESG ratings and data providers. We recommend the SS acknowledges this work.

- ▶ **Data cost and governance:** Currently, most firms are reliant on a variety of external models and data sets for CSA. The expectation set by CP10/25 could result in increased data needs, as compared to SS3/19. This would likely result in greater reliance on external models and data sets, particularly in the near-term as firms develop their capabilities. We believe that the anticipated costs of this that are set out in CP10/25 are substantially underestimated because they do not account fully for the cost of third-party data, data tools, the need to bridge data gaps, and the need to undertake revisions due to continually evolving climate-related data. We agree with the need for transparency relating to black box models, balancing the need for understandable inputs and outputs with the practical limitations of achieving full transparency. We seek support from the PRA and further guidance on cost-effective methods for handling third-party data and model development standards, particularly how firms can leverage contractual agreements to enhance data transparency.

## 6. Disclosure

- ▶ **Wider sustainability disclosure requirements:** There is a critical need for industry-wide consistency on data expectations, and a need for standardised levels of detail in data published by counterparties (and therefore available to firms for use). This is important as part of firms' management of climate-related risk. Widespread adoption of reporting frameworks like the International Sustainability Standards Board's (ISSB) climate-related disclosure standard (S2) across financial services and the broader corporate sector, through the speedy endorsement and implementation of UK SRS will significantly improve data availability. However, it is unlikely to fully eliminate data gaps in the near term.

## 7. Proportionality

- ▶ **Climate-related risk assessment:** Regarding the two-step process of risk identification, assessment and risk management for materiality determination (through CSA and RST) mentioned in paragraph 3.9, it is important to clarify what constitutes a proportionate approach to climate-related risk assessment given the PRA's emphasis on materiality of exposure. As noted in figure 1 in Section 1, as well as the 'climate

scenario analysis and reverse stress testing’ section of our response, it would be beneficial if the PRA allow for narrative scenarios and expert judgement in pre-assessments, reserving more sophisticated or quantitative CSA and/or RST for material climate-related risks.

- ▶ **Proportionality in the draft supervisory statement:** We suggest that integrating the discussion of materiality assessment proportionality within Section 1 of the new SS, preceding other sections, would improve the overall structure. This approach could eliminate the need for a separate CSA if the pre-assessment identifies an immaterial risk, thereby streamlining the process and avoiding circularity of proportionality requirements. Where firms have determined that they are not exposed to material climate-related risks, there should not be an expectation to overlay climate-related risk on projected impacts on their business model and financial statements in the future. Doing so would go beyond what is done for other, potentially more material, risks.
- ▶ **Proportionality of other requirements:** As mentioned in the ‘risk management’ section, we would also welcome explicit proportionality measures for other requirements. This could include a clarification that smaller firms have greater flexibility with regard to more resource-intensive activities such as RST, and that climate can be embedded into existing non-climate RST rather than having a stand-alone climate RST. The current principles-based approach offers insufficient clarity in determining appropriate levels of effort.

## 8. Bank-specific

- ▶ **Liquidity risk:** We welcome the clarifications around embedding and accounting for climate-related risk within the ICAAP. The rationale for prioritising short-term liquidity and the expectation of integrating climate-related risks into the Internal Liquidity Adequacy Assessment Process (ILAAP), as mentioned in CP10/25, requires further clarification. We recommend that the PRA takes a proportionate approach to this expectation, as proposed in the ‘overarching comments’ section, to provide firms the flexibility to determine whether it is appropriate to include climate-related risk in the ILAAP. Additionally, we recognise that climate-driven liquidity risk could lead to significant short-term outflows; however, these are likely to be less material than what banks might already be reserving (e.g. via liquidity stress testing which considers a broader set of causes for liquidity outflows than climate-specific). The PRA may wish to consider focusing on these longer-term structural risks in its regulatory expectations, as opposed to short-term liquidity. To support this, the PRA may wish to align to the time horizons used in the Net Stable Funding Ratio (NSFR).
- ▶ **Expectations for Six-month transition period:** As mentioned in the ‘overarching comments’ section, we would welcome more clarity on what the PRA expects firms to

achieve during the proposed six-month transition period after the updated SS takes effect. Specifically, firms anticipate that fully integrating climate-related risks into the ICAAP and ILAAP processes will be challenging within the six-month timeframe (if not already incorporated) since the expectations include stress tests and liquidity buffer calculations, as well as third-party arrangements and critical services.

- ▶ **Counterparty engagement should be considerations and not expectations:** We recognise the value of engaging with counterparties on climate-related risks. We recommend that the examples given (paragraph 4.2.9) are clarified as “considerations”, as opposed to “expectations”, and that the level of detail sought acknowledges the limitations in the broader counterparty disclosure landscape. For example, it may not be practical or possible to assess the degree of reliance on emerging technologies, based on counterparties’ existing or expected disclosures.
- ▶ **Litigation risk:** We note that climate-related litigation is mentioned as a driver of financial impact to firms in CP10/25 and referenced in section 4.2 on general guidance. However, litigation risk is not mentioned in section 4.6 on banking-specific information but is referred to in section 4.7 on insurer-specific information. We propose that the PRA clarifies that all firms, including banks, are required to assess climate-related litigation risks in a similar manner to insurers. In paragraphs 4.6.10-4.6.13 of the SS, the PRA sets out its expectations on how firms should quantify the impact of climate-related risks on balance sheets. We would highlight that banks are likely to face challenges for purposes of external disclosure, given that estimated impacts rely upon the use of data limited scenarios and significant modelling uncertainty.

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If you have any questions on this response, please reach out to:

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